

1 **DIRECT TESTIMONY OF**
2 **KENNETH R. JACKSON**
3 **ON BEHALF OF**
4 **SOUTH CAROLINA ELECTRIC & GAS COMPANY**
5 **DOCKET NO. 2006-5-G**
6

7 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

8 A. Kenneth R. Jackson, 1426 Main Street, Columbia, South Carolina.

9 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

10 A. I am Director of Rates and Regulatory Affairs at SCANA Services, Inc.

11 **Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS**
12 **EXPERIENCE.**

13 A. I am a graduate of the University of South Carolina ("USC") where I
14 received a Bachelor of Science Degree in Business Administration, majoring in
15 Finance. Since graduating from USC, I have completed numerous graduate level
16 courses in Business and Economics. I joined South Carolina Electric & Gas
17 Company ("Company" or "SCE&G") in September 1978, where I held various
18 positions within the Rate Department over the next eighteen years. In May 1997, I
19 became Team Leader for Industrial Marketing. In October 1997, I was promoted
20 to Manager of Marketing Research and Sales for the Large Customer Group. In
21 July 1999, I was promoted to Assistant Controller for the Fossil and Hydro
22 Strategic Business Unit. In May 2005, I became Director of Rates and Regulatory
23 Affairs. I have also served as the Chairman of the Accounting and Finance section
24 of the Southeastern Electric Exchange.

1 **Q. WILL YOU BRIEFLY SUMMARIZE YOUR RESPONSIBILITIES FOR**
2 **SCE&G?**

3 A. My responsibilities for SCE&G include the design and administration of
4 the Company's electric and gas rates and tariffs, including the electric fuel
5 adjustment and gas cost adjustment. In addition, I am responsible for the
6 Company's electric and gas allocation studies and regulatory accounting function.

7 **Q. HAVE YOU PRESENTED TESTIMONY TO THIS COMMISSION**
8 **BEFORE?**

9 A. Yes. I have testified before this Commission in previous proceedings.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
11 **PROCEEDING?**

12 A. The purpose of my testimony is to request that the Commission approve
13 SCE&G's proposal to change the method by which it accounts for and recovers
14 uncollectible gas costs, which are those costs of gas associated with customer
15 accounts written off for non-payment.

16 **Q. PLEASE DESCRIBE THE PROPOSED METHOD AND CHANGES**
17 **RELATED TO THE RECOVERY OF UNCOLLECTIBLE GAS COSTS?**

18 A. Currently, SCE&G recovers its uncollectible gas costs in its base rates as a
19 component of the cost of service. SCE&G is proposing to remove the
20 uncollectible gas cost expense from its base rates and recover these costs through
21 the purchased gas adjustment mechanism.

1 **Q. WHY IS SCE&G PROPOSING THIS CHANGE?**

2 A. Under the current approach, the actual test year uncollectible gas cost
3 expense is included in the rate of return calculation for purposes of the annual Rate
4 Stabilization Act (“RSA”) filing that was filed by SCE&G on June 15, 2006. In
5 recent years, wholesale gas prices have been very volatile and prices have changed
6 drastically in very short periods of time. Because of this volatility, SCE&G has
7 experienced fluctuations from year to year thus causing a mismatch between
8 SCE&G’s base rates and the actual level of uncollectible gas cost expense that will
9 be incurred by SCE&G in the future.

10 **Q. HAS SCE&G PREVIOUSLY REQUESTED A CHANGE IN THE**
11 **UNCOLLECTIBLE GAS COST RECOVERY METHOD?**

12 A. Yes. As a consequence of higher than normal natural gas prices, coupled
13 with colder than normal weather during the winter of 2000-2001, on November
14 29, 2001, the Company petitioned the Commission for permission to record the
15 cost of gas portion of its uncollectible account as a charge to its deferred account
16 for the fiscal year ending December 2001. On January 17, 2002, the Commission
17 issued Order No. 2002-36 approving the Company’s request to record the gas cost
18 component of its uncollectible account to its deferred account for the fiscal year
19 ending December 2001. The Company made no additional requests.

1 **Q. HAS THE COMMISSION APPROVED THIS CHANGE IN RECOVERY**
2 **METHODOLOGY FOR ANY OTHER UTILITY UNDER ITS**
3 **JURISDICTION?**

4 A. Yes. The Commission recently approved a similar change for Piedmont
5 Natural Gas Company in Docket No. 2006-4-G.

6 **Q. HOW ARE SCE&G AND ITS RATEPAYERS IMPACTED BY THE**
7 **EXISTING METHOD OF CALCULATING AND RECOVERING**
8 **UNCOLLECTIBLE GAS COST EXPENSE?**

9 A. To the extent that SCE&G's actual uncollectible gas cost expense varies
10 from the amount that is included in base rates, the Company either overcollects or
11 undercollects this part of its cost of service. To the extent that the Company
12 overcollects this expense, ratepayers are impacted negatively because they pay
13 more than they should to compensate SCE&G for this cost. To the extent the
14 Company undercollects this expense, the Company is impacted negatively because
15 it receives less than the actual costs incurred for this expense.

16 **Q. IS THE PROPOSAL TO REMOVE THIS EXPENSE FROM SCE&G'S**
17 **BASE RATES AND COLLECT IT THROUGH THE GAS COST**
18 **DEFERRED ACCOUNTS A BETTER ALTERNATIVE?**

19 A. Yes. Under SCE&G's proposal, the Company would collect the correct
20 amount of uncollectible gas cost expense that has actually been incurred by the
21 Company.

1 **Q. IS IT POSSIBLE FOR THE COMPANY TO INCREASE ITS MARGIN**
2 **UNDER THE PROPOSED METHODOLOGY?**

3 A. No. As is currently the case, the Company will remain at risk for recovery
4 of the margin component of uncollectible accounts expense.

5 **Q. WHAT LEVEL OF EXPENSE IS CURRENTLY IN BASE RATES?**

6 A. In Docket No. 2005-113-G, SCE&G included \$395,649 of uncollectible gas
7 cost expense in its cost of service based on the balance in account 904 for the
8 twelve months ending December 31, 2004. SCE&G's recent RSA filing included
9 \$422,388. This amount was approved by the Commission on September 20, 2006,
10 and will be included in base rates beginning with the first billing cycle of
11 November 1, 2006.

12 **Q. WHAT WILL HAPPEN TO THOSE COSTS IF THE COMMISSION**
13 **APPROVES SCE&G'S PROPOSED CHANGE IN UNCOLLECTIBLE GAS**
14 **COST RECOVERY METHOD?**

15 A. SCE&G will remove the appropriate level of uncollectible gas cost from
16 the cost of service to be filed in its next RSA filing which will reduce the revenue
17 requirement for the period under review. Beginning in November 2007, and
18 thereafter, the actual uncollectible gas cost expense incurred by SCE&G will be
19 recorded in the gas cost deferred accounts and recovered through the firm
20 commodity benchmark of the PGA mechanism. If approved by the Commission,
21 implementation of the new method for recovering uncollectible gas cost will begin

1 with the first billing cycle of November 2007 to coincide with any rate adjustment
2 related to the 2007 RSA filing.

3 **Q. WILL THIS CHANGE IN METHODOLOGY REQUIRE A CHANGE TO**
4 **SCE&G'S TARIFFS?**

5 A. No. All that SCE&G is requesting in this proceeding is Commission
6 approval of a change in accounting methodology.

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 A. Yes.